



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: March 18, 2025 – 9:30 AM ET]** Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 closed up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were higher, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite up 0.5%. Conversely, US equity index futures are signaling a lower open.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<a href="#">“United Arab Emirates: An Overview”</a> (3/10/25) + <a href="#">podcast</a>	<a href="#">“Equities as an Inflation Hedge?”</a> (3/17/25) + <a href="#">podcast</a>	<a href="#">Q1 2025 Report</a> <a href="#">Q1 2025 Rebalance Presentation</a>	<a href="#">The Confluence of Ideas podcast</a> <a href="#">Business Cycle Report</a>

Our *Comment* today opens with a couple of notes on Japanese monetary policy and the Japanese stock market. We next review several other international and US developments with the potential to affect the financial markets today, including signs that the European Union will impose steep tariffs on imported aluminum in response to the impending US tariffs, as well as a couple of notes on monetary and regulatory policy at the Federal Reserve.

**Japan Monetary Policy:** The Bank of Japan today [starts its latest policy meeting, with its decision due to be released tomorrow](#). Even though strong Japanese wage growth and continuing price pressures would seem to argue for higher interest rates, uncertainty regarding US trade policy is expected to convince the policymakers to hold their benchmark rate unchanged at 0.50%, after they hiked it by 25 basis points at their last meeting in January.

**Japan Stock Market:** According to a report in the *Financial Times* yesterday, Warren Buffett’s Berkshire Hathaway [has increased its shareholdings in five Japanese trading houses](#) after negotiating to lift a 10% limit on Berkshire’s investments in the companies. Buffett’s willingness to hike his exposure to the firms will likely be taken as a vote of confidence in them. It will also

probably be seen as a sign that overall Japanese stock valuations remain attractive, at least in the eyes of one of the world's most admired value investors.

**European Union:** The European Commission today [is expected to announce a probe into the EU aluminum market and whether third countries are dumping the metal in Europe](#) to get around the Trump administration's high tariffs. The investigation suggests that the EU is prepping its own tariffs to protect domestic producers. If so, the action would help validate fears that the US-EU trade war could widen to affect other economies and roil global economic growth.

**United Kingdom:** Struggling to contain the UK's growing debt, the Labour Party government of Prime Minister Starmer today [will propose a series of welfare reforms aimed at cutting about one million people from the health and disability programs to save some 5 billion GBP](#) (\$6.5 billion) per year. The proposed reforms would require a vote of parliament, but many junior Labour lawmakers are threatening to oppose them. If they do, it will mark a major rebellion against the center-left party and potentially limit any further efforts at fiscal consolidation.

**Russia-Ukraine War:** According to the *Wall Street Journal* today, Ukraine in December [launched what appears to be the world's first large-scale, drone-only military attack](#). The attack involved dozens of coordinated land robots and aerial drones to successfully destroy a Russian position in northern Ukraine. The attack illustrates the rapid development of robot warfare in the Russia-Ukraine war.

- The rapid development of autonomous vehicles in the war is likely to have massive implications not only for future military force structure, strategy, and tactics, but also for military budgets, industrial structure, economic growth, and even national educational systems.
- If a peace agreement is reached, the war could well leave both Russia and Ukraine as leaders in the new military capability. For example, when the Pentagon's "Artemis" program awarded contracts on Friday to four companies to build prototypes for the next generation of long-range aerial attack drones, two of the contracts went to US firms and the other [two went to Ukrainian companies](#).

**Israel-Hamas War:** After the Hamas militants governing the Gaza Strip halted the release of more Israeli hostages and rejected US pressure to extend the recent two-month ceasefire, Tel Aviv today [launched a large campaign of airstrikes across Gaza](#). The airstrikes have reportedly killed hundreds of Gazans and threaten to rekindle the full-scale war that Israel launched against Hamas following its attack on Israel in October 2023. If the war resumes, it would threaten to again destabilize the energy-rich Middle East after a short period of calm.

**United States-Canada:** In a little-noticed provision in one of President Trump's recent orders, about one million Canadian seniors or "snowbirds" who spend their winters in the US [will be required to first register with the US government](#). The rule will apply to all Canadians aged 14 years and older who plan to stay in the US for 30 days or longer. Economists estimate that Canadian snowbirds spend billions of dollars in the US each year, so if the new regulation deters many of them, it could weigh on popular snowbird destinations, such as Arizona.

**US Monetary Policy:** Like the Bank of Japan, the Fed [starts its latest policy meeting today](#), with its decision due to be released tomorrow at 2:00 PM ET. The policymakers are widely expected to hold their benchmark fed funds interest rate unchanged at 4.25% to 4.50%. Futures trading suggests that investors are now expecting two or three additional rate cuts of 25 basis points by the end of this year, but the policymakers may hold their fire until consumer price inflation cools further, economic growth slows sharply, or both.

**US Financial Regulation:** President Trump yesterday [nominated Michelle Bowman, a member of the Fed's governing board, to be the new vice chairman for supervision](#). If confirmed by Congress, Bowman would become one of the federal government's key bank regulators, along with the heads of the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency. Indeed, her confirmation by Congress appears highly likely.

- Bowman is seen as friendly to banking interests and supports lighter bank regulation.
- Therefore, her nomination has been heralded by both the American Bankers Association and the Independent Community Bankers of America.

**US Stock Market:** According to Bank of America's closely watched survey of investment-fund managers, investors [have reduced their exposure to US stocks this month by the largest amount ever](#). The survey showed that the average allocation to US stocks plunged by 40 percentage points, from 17% overweight in February to 23% underweight in March. The big drop reportedly reflects investor concerns about factors such as the Trump administration's global trade war, the potential for US stagflation, and changing domestic economic policies.

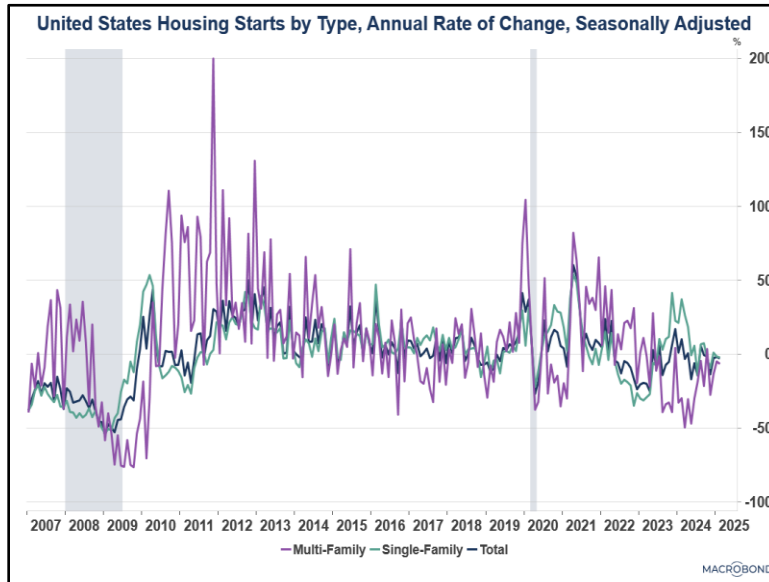
- In our [2025 Economic and Financial Market Outlook](#), we projected that the S&P 500 price index would rise about 10.5% for the date of publication to end the year at approximately 6,735. We flagged the possibility of even stronger returns, based on factors such as investors' large holdings of money market funds "on the sidelines," but we also noted the potential for increased volatility.
- This month's correction in the US stock market is consistent with the potential volatility that we saw, so it has not yet prompted us to adjust our projection. However, we continue to monitor important evolving issues, such as the administration's unexpectedly aggressive moves in foreign and domestic policy. If there are any major adjustments to our forecasts, they would likely be published in a mid-year update to our *Outlook*.

---

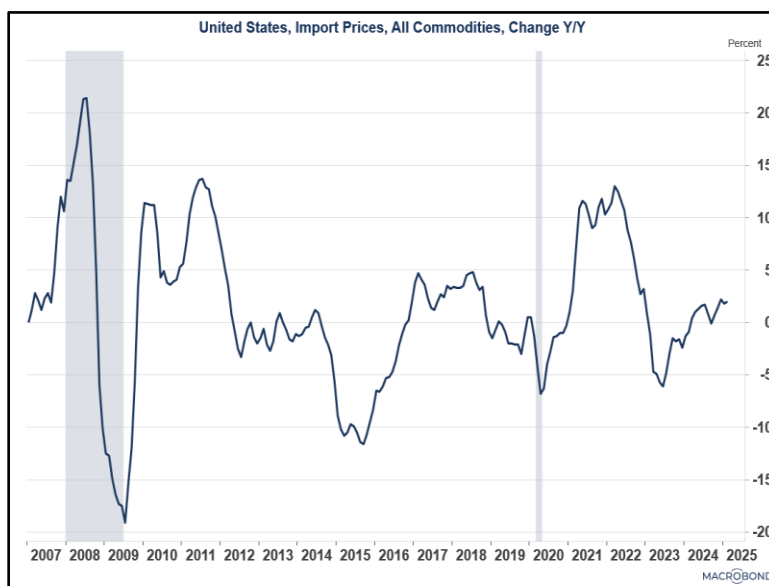
## US Economic Releases

February **housing starts** rose to a seasonally adjusted, annualized rate of 1.501 million units, exceeding the expected rate of 1.385 million units and the previous month's 1.350 million. The rate of housing starts in February rose 11.2% from the rate in the previous month, significantly greater than the expected 1.4%. February **residential building permits** fell to a rate of 1.456 million units, essentially matching the expected rate of 1.453 million units, but falling short of the previous month's 1.473 million. Permits issued for new housing units in February fell 1.2% from the previous month, slightly less of a fall than the expected 1.4% decline. Compared with

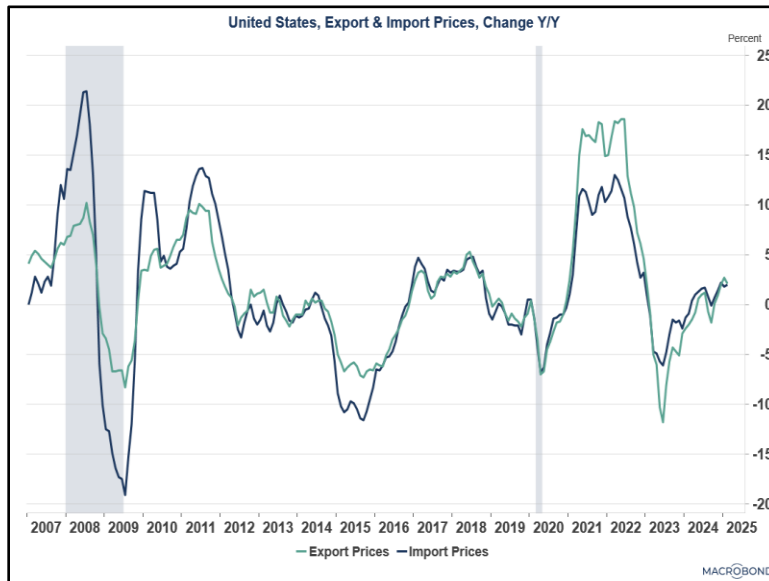
the same month one year earlier, housing starts in February fell 2.3%, while permits fell 11.0%. The chart below shows the growth in new home starts by type of property since just before the Global Financial Crisis.



February *import prices* rose 0.4% from the previous month, matching the gain of the previous month and slightly exceeding the expected 0.0%. Of course, import prices are often driven by volatility in the petroleum fuels category. February *import prices excluding fuels* also rose 0.4%, in this case exceeding both the expected 0.2% rise and the previous month's 0.0%. Overall import prices in February rose/fell 2.0% year-over-year, while import prices excluding fuels rose 1.4%. The chart below shows the year-over-year change in import prices since just before the Global Financial Crisis.



According to the report, *export prices* in February rose 2.1% from one year earlier. Comparing the annual change in export prices versus import prices provides a sense of the US “terms of trade,” or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices since just before the Global Financial Crisis.



There are no economic releases or Fed events scheduled for the rest of the day.

### Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant, thus we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
<b>ASIA-PACIFIC</b>								
Japan	Tertiary Industry Index	m/m	Jan	-0.3%	0.4%	-0.1%	***	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Feb	-2.4%	-44.2%		*	Equity and bond neutral
New Zealand	Non Resident Bond Holdings	m/m	Feb	61.8%	61.9%		*	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	ZEW Survey Expectations	m/m	Mar	39.8	24.2		**	Equity and bond neutral
	Trade Balance SA	m/m	Jan	14.0b	14.2b	13.8b	**	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Mar	51.6	26.0	48.3	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Mar	-87.6	-88.5	-80.5	**	Equity and bond neutral
Italy	Trade Balance Total	m/m	Jan	-264m	5820m		*	Equity and bond neutral
<b>AMERICAS</b>								
Canada	Housing Starts	m/m	Feb	229.0k	239.3k	246.0k	**	Equity bearish, bond bullish
	Int'l Securities Transactions	m/m	Jan	7.91b	13.94b		**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Mar	0.04%	0.87%	0.41%	**	Equity and bond neutral

## Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	418	418	0	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Down
U.S. Libor/OIS spread (bps)	432	433	-1	Down
10-yr T-note (%)	4.31	4.30	0.01	Up
Euribor/OIS spread (bps)	246	248	-2	Down
Currencies	Direction			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Up

## Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.



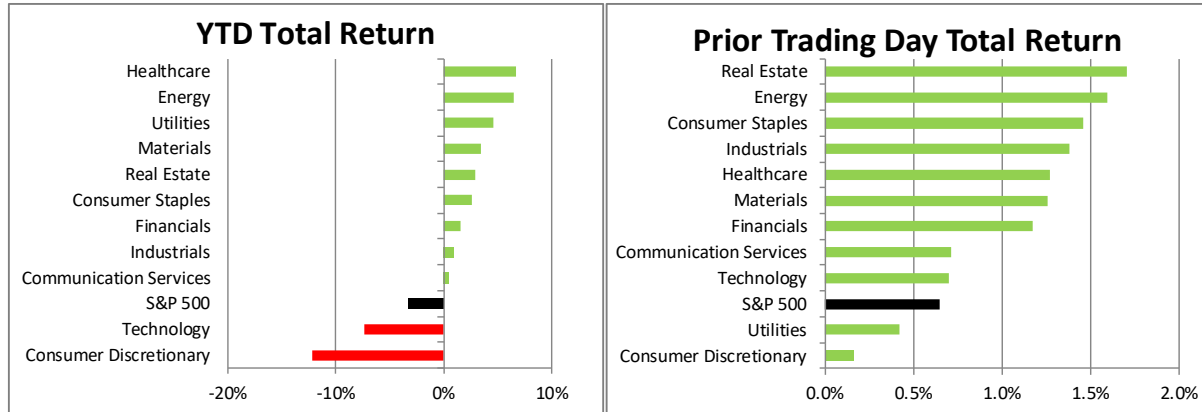
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$71.93	\$71.07	1.21%	
WTI	\$68.44	\$67.58	1.27%	
Natural Gas	\$3.98	\$4.02	-0.92%	
Crack Spread	\$24.45	\$24.47	-0.07%	
12-mo strip crack	\$20.85	\$20.82	0.13%	
Ethanol rack	\$1.84	\$1.84	0.29%	
<b>Metals</b>				
Gold	\$3,023.58	\$3,000.60	0.77%	
Silver	\$34.05	\$33.86	0.55%	
Copper contract	\$496.10	\$495.90	0.04%	
<b>Grains</b>				
Corn contract	\$457.25	\$461.00	-0.81%	
Wheat contract	\$569.75	\$568.50	0.22%	
Soybeans contract	\$1,016.25	\$1,015.50	0.07%	
<b>Shipping</b>				
Baltic Dry Freight	1,658	1,669	-11	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		1.00		
Gasoline (mb)		-3.00		
Distillates (mb)		-0.50		
Refinery run rates (%)		0.00%		
Natural gas (bcf)		-50		

## Weather

The 6-to-10 and 8-to-14-day forecasts predict that cooler temperatures are expected in the western Great Lakes region stretching into the lower Ohio Valley, with warmer-than-normal temperatures expected for the western half of the country. The forecasts also indicate wetter-than-normal conditions from coast to coast along the northern tier, with dryer-than-normal conditions expected from southern California to Kansas and Oklahoma.

**Data Section**

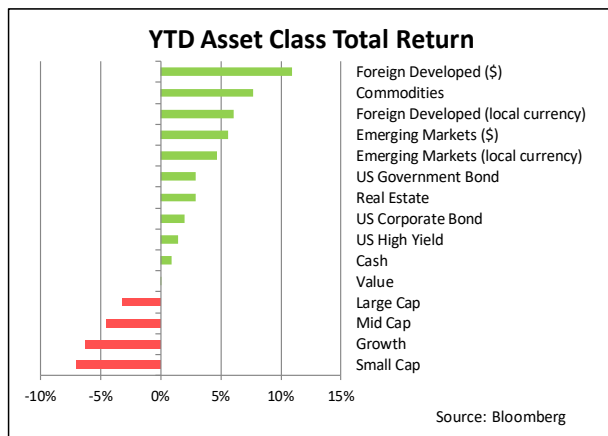
**US Equity Markets – (as of 3/17/2025 close)**



(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

**Asset Class Performance – (as of 3/17/2025 close)**



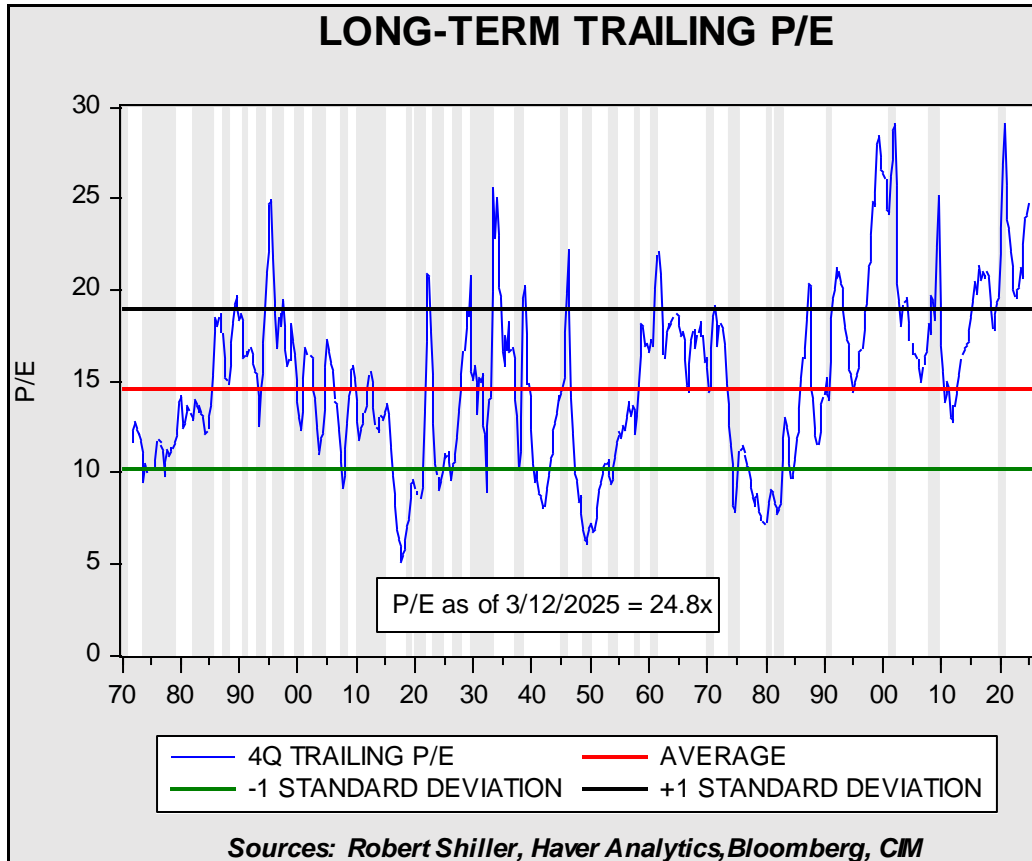
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx \$ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).



## P/E Update

March 13, 2025



Based on our methodology,<sup>1</sup> the current P/E is 24.8x, down 0.2 from our last report. The drop in multiple was driven primarily by a decline in the stock price index.

*This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.*

<sup>1</sup> This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q2, and Q3) and one estimate (Q4). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.